

**REPORT OF THE AUDIT OF THE  
GRAVES COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE**  
**GRAVES COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2004**

The Auditor of Public Accounts has completed the Graves County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees decreased by \$43,654 from the prior year, resulting in excess fees of \$20,649 as of December 31, 2004. Revenues increased by \$4,629 from the prior year and expenditures increased by \$48, 283. As of the audit date, the Sheriff still owes excess fees of \$10,001 for 2001, \$44 for 2002, \$46,507 for 2003 and \$20,649 for 2004 for a total of \$77,201. The Sheriff's official fee account had a fund deficit of \$800 as of December 31, 2004.

**Debt Obligations:**

Total debt principal as of December 31, 2004, was \$127,758. Future collections of \$134,256 are needed over the next 2 years to pay all debt principal and interest.

**Report Comments:**

- The Sheriff Should Remit \$77,201 In Excess Fees To The Fiscal Court
- The Sheriff Should Advertise For Bids For Any Purchases Of \$20,000 Or More
- The Sheriff Should Eliminate A Deficit Of \$800 In His Official Fee Account As Of December 31, 2004
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Maintain Complete and Accurate Accounting Records
- The Sheriff Should Establish Separate Bank Accounts For Forfeited Property And Drug Awareness
- The Sheriff's Office Lacks Adequate Segregation Of Duties



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	6
SUPPORTING SCHEDULE:	
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS .....	9
COMMENTS AND RECOMMENDATIONS .....	13
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	19





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive  
Honorable John Davis, Graves County Sheriff  
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Graves County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.



The Honorable Tony Smith, Graves County Judge/Executive  
Honorable John Davis, Graves County Sheriff  
Members of the Graves County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Remit \$77,201 In Excess Fees To The Fiscal Court
- The Sheriff Should Advertise For Bids For Any Purchases Of \$20,000 Or More
- The Sheriff Should Eliminate A Deficit Of \$800 In His Official Fee Account As Of December 31, 2004
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Maintain Complete and Accurate Accounting Records
- The Sheriff Should Establish Separate Bank Accounts For Forfeited Property And Drug Awareness
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Graves County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
September 13, 2005



GRAVES COUNTY  
JOHN DAVIS, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

Federal Grants:

Methamphetamine	\$ 15,941	
Highway Safety Program	5,002	
Traffic Awareness Program	7,281	
Tri-County Drug Task Force	<u>40,988</u>	\$ 69,212

State - Kentucky Law Enforcement Foundation Program Fund	32,706
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State Fees For Services:

Finance and Administration Cabinet	\$ 65,826	
Cabinet For Human Resources	9,216	
Sheriff's Security Fees	41,520	
Court Cost Fee For Policing	<u>4,167</u>	120,729

Circuit Court Clerk:

Fines and Fees Collected	4,313
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Fiscal Court	115,382
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County Clerk - Delinquent Taxes	4,059
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Commission On Taxes Collected	316,281
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Fees Collected For Services:

Auto Inspections	\$ 17,046	
Accident and Police Reports	2,037	
Serving Papers	32,380	
Carrying Concealed Deadly Weapon Permits	<u>7,920</u>	59,383

Other:

Returned Check Fees	\$ 550	
Extra Security Services	9,008	
Reimbursements from Employees for Equipment	1,415	
Insurance Proceeds	53,276	
School Resource Officer	29,857	
Miscellaneous	6,176	

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY  
 JOHN DAVIS, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Revenues (Continued)

Other: (Continued)

Sheriff's Add-on Fees	\$	36,398	
Advertising Fees		2,658	
2nd Notice Fees		<u>4,553</u>	\$ 143,891

Interest Earned 2,397

Borrowed Money:

State Advancement	\$	160,000	
Bank Note		<u>162,979</u>	<u>322,979</u>

Total Revenues \$ 1,191,332

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	407,197	
Part-Time Salaries		80,991	
Other Salaries		<u>4,641</u>	\$ 492,829

Employee Benefits-

Employer's Share Social Security		39,831	
Employer's Share Retirement			
Employer's Share Hazardous Duty Retirement			
Employer Paid Health Insurance			

Contracted Services-

Advertising	\$	19	
Computer Services		<u>379</u>	398

Materials and Supplies-

Office Materials and Supplies	\$	7,676	
Uniforms		<u>648</u>	8,324

Auto Expense-

Gasoline	\$	31,677	
Maintenance and Repairs		<u>35,024</u>	66,701

GRAVES COUNTY  
 JOHN DAVIS, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	5,703	
Dues		796	
Postage		9,784	
Bond		1,259	
Carrying Concealed Deadly Weapon Permits		2,715	
Canine		4,379	
Miscellaneous		5,971	
Out of County Fees		250	
Transports		21,272	
Jury		407	\$ 52,536

Capital Outlay-

Vehicles			38,862
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Debt Service:

State Advancement	\$	160,000	
Notes		225,823	
Interest		8,717	394,540

Total Expenditures \$ 1,094,021

Less: Disallowed Expenditures

Convention and Travel	\$	359	
Vehicles		304	663

Total Allowable Expenditures \$ 1,093,358

Net Revenues \$ 97,974

Less: Statutory Maximum	\$	74,232	
Training Incentive Benefit		3,093	77,325

Excess Fees Due County for 2004 \$ 20,649

GRAVES COUNTY  
JOHN DAVIS, COUNTY SHERIFF  
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits.

GRAVES COUNTY  
JOHN DAVIS, COUNTY SHERIFF  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 30, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$67,569 of public funds uninsured and unsecured.

GRAVES COUNTY  
 JOHN DAVIS, COUNTY SHERIFF  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2004  
 (Continued)

Note 3. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 30, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	4,947,353
Uncollateralized and uninsured	<u>67,569</u>
Total	<u><u>\$ 5,114,922</u></u>

Note 4. Note Payable

The office of the County Sheriff is liable for a secured note payable to First National Bank in the amount of \$127,758. Purpose of the note was to refinance bank note from the prior year and also to purchase a new police vehicle. The note matures upon demand and the interest rate is 5 percent. The office of the County Sheriff was in compliance with the terms of the agreement as of December 31, 2004.

<u>Year Ending</u>	<u>Interest</u>	<u>Principal</u>
2005	\$ 4,912	\$ 65,007
2006	1,586	62,751
	<u>\$ 6,498</u>	<u>\$ 127,758</u>

Note 5. Grants

During 2004, the Graves County Sheriff's office participated in several federal and state grant programs of which the activity was accounted for in the Fee Account. The Sheriff's office was in compliance with all related regulations and grant agreements as of December 31, 2004.

Note 6. Special Fund

The Graves County Sheriff maintains a separate account mainly for drug related activities and some miscellaneous activities. The beginning balance of this account was \$9,184. During 2004 receipts were \$7,190 and expenditures were \$13,382 leaving an ending balance of \$2,992 as of December 31, 2004.

Note 7. Related Party Transactions

During 2004, the Graves County Sheriff's office engaged in a transaction with related parties totaling \$310.

GRAVES COUNTY  
JOHN DAVIS, COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2004

Assets

Cash in Bank	\$ 205,512
Deposits in Transit	3,477
Receivables:	
Due from 2005 Fee Account	<u>75,236</u>
Total Assets	284,225

Liabilities

Paid Obligations:

Outstanding Checks	\$ 203,137
Outstanding Liabilities	<u>30</u>

Total Paid Obligations	\$ 203,167
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Unpaid Obligations:

Outstanding Checks from Prior years	\$ 965
Due to Graves County Sheriff's Franchise Account	3,249
Due to Graves County Sheriff's Tax Account	443
Graves County Fiscal Court	
Excess Fees - 2001	\$ 10,001
Excess Fees - 2002	44
Excess Fees - 2003	46,507
Excess Fees - 2004	<u>20,649</u>
	<u>77,201</u>

Total Unpaid Obligations	<u>81,858</u>
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Total Liabilities	<u>285,025</u>
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Total Deficit as of December 31, 2004	<u>\$ (800)</u>
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## COMMENTS AND RECOMMENDATIONS



GRAVES COUNTY  
JOHN DAVIS, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Remit \$77,201 In Excess Fees To The Fiscal Court

As of December 31, 2004, the Sheriff owes excess fees of \$77,201 to the Fiscal Court for 2001 through 2004. Excess fees of \$20,649 are due for 2004, \$46,507 for 2003, \$44 for 2002 and \$10,001 for 2001. Most of these additional excess fees are due to timing errors incurred by the sheriff's office in posting his receipts and expenditures to the proper fee year. We recommend that the Sheriff pay the fiscal court all excess fees currently due and, in the future, we recommend that he settle his fee account annually with the fiscal court by September 1 as required by KRS 134.310(6).

*Sheriff's Response:*

*Will work with fiscal court to correct this.*

The Sheriff Should Advertise For Bids For Any Purchases Of \$20,000 Or More

KRS 424.260 states that no sheriff may enter into a contract, lease, or other agreement for materials, supplies, equipment or contractual services other than professional, involving an expenditure of more than \$20,000 without first making newspaper advertisement for bids. During 2004 the Sheriff purchased a vehicle for \$31,900 without first making advertisement for bids. We recommend that the Sheriff comply with KRS 424.260 by advertising for bids on all purchases of \$20,000 or more in the future.

*Sheriff's Response*

*Will follow procedures.*

The Sheriff Should Eliminate Deficit Of \$800 In His Official Fee Account As Of December 31, 2004

As of December 31, 2004, there was a deficit of \$800 in the Sheriff's Official Fee Account. This results from a prior year deficit of \$137 and disallowed expenditures of \$663 in the current year. The disallowed expenditures are a result of \$304 in penalties for late payments and \$359 in expenses that were paid twice. According to Funk v. Milliken, Ky., 317 S.W.2d 499(1958), penalties for late payments are not an allowable expense of a fee official's office. We recommend the Sheriff eliminate this deficit with \$800 of personal funds.

*Sheriff's Response:*

*Will comply.*

GRAVES COUNTY  
JOHN DAVIS, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2004  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 30, 2004, \$67,569 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*Will make sure bank has proper pledges.*

The Sheriff Should Maintain Complete and Accurate Accounting Records

KRS 68.210 and KRS 134.160 require the Sheriff to maintain complete and accurate accounting records. We noted severe deficiencies in the Sheriff's accounting records. We recommend that the Sheriff establish and maintain proper accounting records as required by KRS 68.210 and KRS 134.160 by implementing following procedures:

- All checks should be issued in numerical sequence, supported by proper documentation and posted to the disbursements ledger
- Checks more than 90 days old should be investigated
- Ledgers should be maintained/updated on all accounts until such accounts are closed-out
- Any fee monies received after the close of the year should be deposited to the fee account it pertains to
- The Quarterly Report (front page) should include a reconciliation for all accounts of the Sheriff's office for the entire year
- Budget Amendments should be submitted and approved by the fiscal court for any unexpected receipts and/or expenditures
- Receipts and expenditures ledgers should be reconciled to the Quarterly Report
- Bookkeeper should reconcile accounts receivables to the ledgers monthly

*Sheriff's Response:*

*Will comply.*

GRAVES COUNTY  
JOHN DAVIS, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2004  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Establish Separate Bank Accounts For Forfeited Property And Drug Awareness

The Sheriff maintains a "Special Fund" which is used to account for court order forfeitures and other "special activities" such as payroll withholdings for scholarship awards and proceeds from calendar sales. The Sheriff should establish a separate bank account for Forfeited Property, which should be used exclusively to account for drug related law enforcement activities with property seizures and forfeited property receipts being the only deposits. Expenditures made from the Forfeited Property account should be used either for direct law enforcement purposes as required by KRS 218A.435, or as specifically directed in the court's order of forfeiture. We also recommend that the Sheriff establish a separate bank account for Drug Awareness, which should be used to account for the DARE program. We recommend that the Sheriff account for all other financial activities separately from forfeited property and drug awareness activities.

Also, KRS 218A.440 requires that each law enforcement agency seizing property and/or money, pursuant to KRS.218A.415 shall, at the close of each year, file a statement with the Auditor of Public Accounts and with the Secretary of Justice containing a detailed listing of all money and property seized in that year and the disposition thereof. No such statement has been filed. We recommend that the Sheriff file a Property Seizure and Disposition Annual Statement as required by KRS 218A.440.

At the end of the year, any unexpended funds for Forfeited Property and Drug Awareness should be carried forward rather than be submitted as excess fees, and any unexpended funds from these same two accounts should remain the property of the Sheriff's office at the end of the Sheriff's term.

*Sheriff's Response:*

*Will arrange for proper accounts.*

GRAVES COUNTY  
 JOHN DAVIS, COUNTY SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2004  
 (Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily check out sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response:*

*Will attempt to meet recommendations.*

PRIOR YEAR:

- The Sheriff Should Remit \$56,541 In Excess Fees To The Fiscal Court
- The Sheriff Should Advertise For Bids For Any Purchases Of \$20,000 Or More
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Maintain Complete And Accurate Accounting Records
- The Sheriff Should Establish Separate Bank Accounts For Forfeited Property And Drug Awareness
- The Sheriff's Office Lacks Adequate Segregation Of Duties

All comments from prior year are repeated in current year report.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive  
Honorable John Davis, Graves County Sheriff  
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Graves County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated September 13, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Remit \$77,201 In Excess Fees To The Fiscal Court
- The Sheriff Should Advertise For Bids For Any Purchases Of \$20,000 Or More
- The Sheriff Should Eliminate Deficit Of \$800 In His Official Fee Account As Of December 31, 2004
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Maintain Complete and Accurate Accounting Records
- The Sheriff Should Establish Separate Bank Accounts For Forfeited Property And Drug Awareness

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
September 13, 2005

